



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

December 10, 2007

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, 25th Floor
P.O. Box 4025
Sacramento, CA 95812-4025

Dear Mr. Leary:

Final Audit Report: City of Folsom, Grant Agreement HD13-04-33

Enclosed is the final report of the City of Folsom (City) Household Hazardous Waste grant agreement HD13-04-33 for the reporting period August 1, 2004 through March 31, 2007. The Department of Finance, Office of State Audits and Evaluations, performed this audit under an interagency agreement with the California Integrated Waste Management Board (Board). The audit includes a review of revenue, expenditures, internal control, and compliance with certain grant agreement provisions.

We appreciate the assistance and cooperation of the City staff during our audit.

If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Jennifer Whitaker, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Darin Ajax, Environmental Specialist Supervisor, Utilities Department, City of Folsom
Mr. Rod Miller, Senior Environmental Specialist, Utilities Department, City of Folsom
Mr. Mark Bresolin, Financial Analysis and Reporting Manager, Finance Department, City of Folsom
Ms. Rubia Packard, Assistant Director, Executive Office, California Integrated Waste Management Board
Mr. Tom Estes, Deputy Director, Administration and Finance Division, California Integrated Waste Management Board
Ms. Shirley Willd-Wagner, Division Chief, Financial Assistance Division, California Integrated Waste Management Board
Ms. Corky Mau, Branch Manager, Financial Assistance Division, California Integrated Waste Management Board
Mr. George Mendoza, Audit Manager, Audits and Evaluation Unit, Financial Assistance Division, California Integrated Waste Management Board
Mr. Jeffrey Lin, Grant Manager, Financial Assistance Division, California Integrated Waste Management Board

A GRANT AUDIT

City of Folsom
Household Hazardous Waste Discretionary
Grant HD13-04-33
For the Period August 1, 2004
through March 31, 2007

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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The Department of Finance, Office of State Audits and Evaluations, performed this audit under an interagency agreement with the California Integrated Waste Management Board (Board).

The Board awarded a \$131,860 grant agreement (HD13-04-33) to the City of Folsom (City) to participate in the Household Hazardous Waste Discretionary Grant Program. This grant was funded by the Integrated Waste Management Account and covers the reporting period August 1, 2004 through March 31, 2007.

The objective of this audit was to determine the City's fiscal compliance with the aforementioned grant. This audit also assessed the City's compliance with applicable laws, regulations, and grant agreement requirements as well as a review of internal control. We did not assess the efficiency or effectiveness of program operations; this responsibility lies with the Board. The responsibility for financial reporting and compliance rests with the City.

This report is intended for the information and use of the Board and City management. However, the report is a matter of public record and its distribution is not limited.

STAFF:

Frances Parmelee, CPA
Manager

Jennifer Whitaker
Supervisor

Regina Lee



INDEPENDENT AUDITOR'S REPORT

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, 25th Floor
P.O. Box 4025
Sacramento, CA 95812-4025

We have audited the accompanying City of Folsom's (City) *Statement of Revenue and Expenditures* (Statement) for grant agreement HD13-04-33, covering the period August 1, 2004 through March 31, 2007. The grant agreement was executed between the City and the California Integrated Waste Management Board (Board). The Statement was prepared from the City's records and is the responsibility of City management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide reasonable assurance as to whether the Statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Statement was prepared, as described in Note 4, for the purpose of determining the City's fiscal compliance with the aforementioned grant agreement. The Statement is not intended to be a presentation of the City's total revenue and expenditures.

In our opinion, the Statement referred to above presents fairly, in all material respects, the claimed and audited revenue and expenditures for grant agreement HD13-04-33, for the period stated above in conformity with accounting principles generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Statement is free of material misstatements, we performed tests of the City's compliance with certain provisions of laws, regulations, and the grant agreement, noncompliance with which could have a direct and material effect on the determination of Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Generally Accepted Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Statement that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of *Finding and Recommendations* to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Statement will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board and City management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Janet I. Rosman, CPA
Assistant Chief, Office of State Audits and Evaluations
(916) 322-2985

September 10, 2007

STATEMENT OF REVENUE AND EXPENDITURES

City of Folsom
Household Hazardous Waste Grant Agreement HD13-04-33
For the Period August 1, 2004 through March 31, 2007

Revenue:	<u>Claimed</u>	<u>Audited</u>	<u>Questioned</u>
State Grant	\$131,113	\$131,113	\$ 0
Expenditures:			
Residential Collection	34,690	34,690	0
Publicity and Education	64,133	64,133	0
Personnel/Other	<u>32,290</u>	<u>32,290</u>	<u>0</u>
Total Expenditures	<u>131,113</u>	<u>131,113</u>	<u>0</u>
Excess of Revenue over Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this statement.

NOTES TO THE STATEMENT OF REVENUE AND EXPENDITURES

City of Folsom Household Hazardous Waste Grant Agreement HD13-04-33

NOTE 1 Description of the Reporting Entity

The City of Folsom, a municipal corporation located within the County of Sacramento, is governed by an elected City Council. The City's reporting entity includes all significant organizations and departments over which the City Council exercises oversight and budgetary responsibilities. The City's Utilities Department has general responsibility for the Household Hazardous Waste grant.

NOTE 2 Program Information

The Legislature created the Integrated Waste Management Account (Public Resources Code Section 48001) to support the reduction, recycling, and reuse of solid waste and the protection of public health and safety through regulation of solid waste handling. The California Integrated Waste Management Board (Board) administers the Integrated Waste Management Account, which includes the Hazardous Household Waste (HHW) Discretionary Grant Program.

The HHW grants are competitive grants available to help local governments establish or expand HHW collection programs. Each fiscal year, the Board allows California cities, counties, and local agencies, including Indian reservations and rancherias, with direct responsibility for HHW management to apply.

NOTE 3 Description of Household Hazardous Waste Grant

The City was awarded grant agreement HD13-04-33 in the amount of \$131,860 for the period August 1, 2004 through March 31, 2007. This grant agreement provides funding to: (1) expand the City's door to door program to collect household hazardous waste (HHW) from residents, and (2) utilize community-based social marketing processes, principles, and techniques to encourage resident behavior to dispose of HHW.

NOTE 4**Summary of Significant Accounting Policies****A. Basis of Presentation**

The Statement presented in this report was prepared from the City's accounts and financial transactions. The Statement summarizes revenue and expenditures recorded by the City during the grant reporting period.

The Statement summarizes the City's transactions pertaining to grant agreement HD13-04-33 only and is not intended to represent all of the City's financial activities.

B. Basis of Accounting

The City's accounts are maintained on the modified accrual basis and in accordance with the principles of fund accounting. Under the modified accrual basis, revenue is recognized as it becomes measurable and available, and expenditures are recorded at the time the liabilities are incurred.

FINDING AND RECOMMENDATIONS

The audit of grant agreement HD13-04-33 identified areas where fiscal controls over grant funds had been established and were working as intended. The audit also identified a significant deficiency requiring corrective action. This significant deficiency, if left uncorrected, increases the risk that material errors or irregularities would not be prevented, or could occur and remain undetected. Implementing these recommendations will strengthen the internal control for future grant agreements.

FINDING 1 Inadequate Audit Trail

Condition: The City did not provide an adequate audit trail for expenditures claimed on the Expenditure Itemization Summaries (EIS) covering the period August 1, 2004 through March 31, 2007. Specifically, the expenditures claimed on the EIS could not be traced to the general ledger and original invoices.

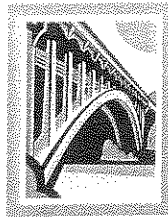
The methodology for claiming expenditures on the EIS was performed after the expenditures were paid. In addition, the accounting records or the supporting documentation were not updated to reflect the amount on the EIS. The City also did not maintain separate accounts to track grant expenditures. Although all expenditures were grant related and eligible for reimbursement, the City risks duplicate billing, misstatement of reported and claimed expenditures, and future disallowed expenditures by not performing periodic reconciliations to the general ledger.

Criteria: Household Hazardous Waste Grant, 13th cycle, Exhibit B, Procedures and Requirements states Grantees must maintain organized and accurate records that follow generally accepted accounting principles and leave an audit trail.

Recommendations: Utilize a project number or create a separate fund/account to track and reconcile grant revenue and expenditures.

Ensure an adequate audit/paper trail exists to allow reconciling the amount claimed on the EIS to the general ledger and original invoices.

CITY'S RESPONSE



CITY OF
FOLSOM
DISTINCTIVE BY NATURE

DIRECTOR:
KENNETH V. PAYNE, P.E.

ASSISTANT DIRECTORS:
WALTER E. SADLER, P.E.
JOHN I. MAGUIRE, P.E.

November 8, 2007

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

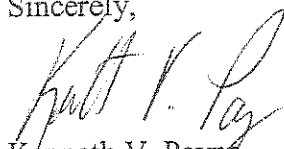
**SUBJECT: DRAFT AUDIT REPORT: CITY OF FOLSOM, GRANT
AGREEMENT HD13-04-33**

To Whom It May Concern:

The City of Folsom acknowledges the finding of the audit report regarding an inadequate audit trail for grant reimbursable invoices. For future grants, the City will develop a reporting system utilizing the current accounting application to allow grant related expenditures to be separately tracked within the general ledger.

Thank you for your attention to this matter.

Sincerely,


Kenneth V. Payne
Utilities Director

Cc: Mark Bresolin, City of Folsom Finance Department
file

UTILITIES DEPARTMENT
50 NATOMA STREET
FOLSOM, CALIFORNIA 95630
916.355.7200 | 916.351.5603 FAX

WWW.FOLSOM.CA.US